

MAY 25 2011

SECRETARY, BOARD OF  
OIL, GAS & MINING**BEFORE THE BOARD OF OIL, GAS AND MINING  
DEPARTMENT OF NATURAL RESOURCES  
STATE OF UTAH**

**IN THE MATTER OF THE REQUEST  
FOR AGENCY ACTION OF STONE  
ENERGY CORPORATION FOR AN  
ORDER AUTHORIZING THE  
VENTING OR FLARING OF GAS  
FROM THE THREE MILE 12 - 7  
WELL LOCATED IN SECTION 12,  
TOWNSHIP 29 SOUTH, RANGE 21  
EAST, S.L.M., IN THE HATCH POINT  
PROSPECT AREA OF SAN JUAN  
COUNTY, UTAH**

**FINDINGS OF FACT,  
CONCLUSIONS OF LAW,  
AND ORDER**

**Docket No. 2011-08**

**Cause No. 166-04**

This cause came on regularly for hearing before the Board of Oil, Gas and Mining (the “**Board**”) on Wednesday, April 27, 2011, at 10:00 a.m., in the Hearing Room of the Utah Department of Natural Resources at 1594 West North Temple Street, in Salt Lake City, Utah.

The following Board members present and participating in the hearing were: Chairman James T. Jensen, Jake Y. Harouny, Jean Semborski, and Kelly L. Payne. Dustin Doucet, petroleum engineer, of the Division of Oil, Gas and Mining (the “**Division**”) participated in the hearing.

Phillip Wm. Lear of Lear & Lear L.L.P. appeared on behalf of Stone Energy Corporation (“**Stone**”), and Kent S. Davis and Kim J. Overcash appeared as witnesses for Stone.

Michael S. Johnson, Assistant Attorney General, represented the Board; and

Stephen F. Alder, Assistant Attorney General, represented the Division.

Michael L. Colthard and Eric Jones, petroleum engineers, appeared for the United States Department of the Interior, Bureau of Land Management, Utah State Office and Moab Field Office, respectively.

**NOW THEREFORE**, the Board, having fully considered the testimony adduced and the exhibits received at the hearing, and being fully advised in the premises, unanimously makes and enters its Findings of Fact, Conclusions of Law, and Order, as follows:

#### **FINDINGS OF FACT**

1. The Board mailed notice of the hearing to interested parties on March 30, 2011, and caused notice to be published in the *Deseret News* and in the *Salt Lake Tribune* on April 3, 2011, and in the *San Juan Record*, a newspaper of independent circulation in San Juan County, Utah, on April 6, 2011.

2. Stone mailed photocopies of the Request for Agency Action (sometimes hereinafter “**Request**”) to the last known address of all interested parties having interests in the subject matter of this hearing by certified mail, return receipt requested, on March 11 and 14, 2011.

3. Stone is a Delaware corporation in good standing, having its principal place of business in Lafayette, Louisiana. Stone is authorized to do, and is doing, business in the State of Utah.

4. Stone owns or controls working interests in the lands and the well that are the subject matter of the Request for Agency Action.

5. Stone is the operator of the Threemile #12-7 Well in the Hatch Point Field of San Juan County, Utah (the “**Well**”). The Well is a horizontal well whose surface location is situated in the NW¼SE¼ of Section 12 of Township 29 South, Range 21 East, S.L.M., on United States Lease for Oil and Gas UTU-76580 (“**Surface Hole Lease**”). The Well’s bottom hole location is situated in the NW¼NE¼SW¼ of Section 7 of Township 29 South, Range 22 East, S.L.M., on United States Lease for Oil and Gas UTU-76349 (“**Bottom Hole Lease**” and collectively with Surface Hole Lease, the “**Leases**”).

6. Stone is the successor unit operator of the Threemile Unit, a federally supervised exploratory unit for the exploration, production, and development of oil and associated gas in the Hatch Point Field area. The Leases and Well are committed to the Threemile Unit.

7. Stone completed the Well on January 28, 2011, as a well capable of producing oil and associated gas from clastics sequences in the Cane Creek interval of the Paradox (Shale) formation. Those portions of the lateral completed for production are in the N½SW ¼ of Section 7.

8. Based upon the initial five-day production test, the estimated ultimate recoverable oil reserves are 500 thousand barrels of oil (“**MBO**”). The estimated ultimate recoverable gas reserves are 465 million cubic feet (“**MMCF**”). Stone derived the estimated oil and gas reserves from early test results from the Well and decline curves from Fidelity Exploration & Production Company’s Cane Creek Unit wells in Grand County, Utah. The GOR is approximately 930 SCF to one barrel of oil.

9. Based upon approximately 35 days of production testing, the estimated ultimate recoverable reserves range from 300 to 500 MBO and the estimated ultimate recoverable gas reserves range from 180 to 465 million cubic feet (“MMCF”).

10. A chemical analysis for the Well introduced at the hearing disclosed that the Well produces no dangerous or toxic gases that would be released or vented by flaring.

11. Gas reserves represent less than four percent of the total value of production from the Well.

12. The discounted present value of oil and gas reserves, including the well and gas pipeline costs, is between negative \$ 17.4 Million and \$ 1 Million. The well cost is \$ 8.5 million and the gas pipeline cost is \$ 9.9 million. The average oil pricing is \$103.00 / BO minus a \$10.50 / BO transportation deduction. The average gas pricing is \$6.33 / MCF which includes a 1.3 BTU thermal adjustment factor.

13. The Well is the first well in the Hatch Point Field to produce in paying quantities. Production averages are preliminary, and production forecasts and estimated ultimately recoveries may change with time.

14. Possible conservation alternatives to flaring of associated gas from Cane Creek interval wells in the Cane Crane Unit identified in the Fidelity Exploration & Production Company hearings in Cause Nos. 196-39, 196-40, and 196-41, namely, compressed natural gas (CNG), gas to liquids (GTL), gas to wire (electrical generation), gas injection, use on lease, and production to a pipeline are technologically infeasible or render the Well sub-economic. They do not provide reasonable economic alternatives to gas flaring from the Well.

15. Utilizing the Cane Creek Field paradigms applied to the Threemile #12-7 Well, no alternative is economical as a conservation alternative for the Well; and the pipeline alternative only would be economically feasible with production from seven to eight wells in the Hatch Point Field.

16. Specifically, compressed natural gas would require gas processing and compression plant facilities at an estimated cost of \$15 Million. Further, it would require high-volume truck traffic, and there is no local market.

17. GTL at current flow rates would require capital investments of \$10-15 Million and a construction time-line of several years.

18. Gas to wire or electrical generation would cost in excess of \$1.5 Million per well on an eight-well scenario—a capital investment of \$12 Million, not including transmission infra-structure costs)—in the face of no grid for sale and similar adverse environmental emissions to gas flaring.

19. Gas re-injection would require the drilling of an additional well for injection at an approximate cost of \$8.5 Million (not including tubulars and compression). Further, the Cane Creek Interval is over-pressurized and doubtfully susceptible of injection of natural gas.

20. Approximately 10 MCFD are used on lease, and the balance would be flared.

21. There is currently no natural gas pipeline to market gas produced from the Well. A gas pipeline would be the most technologically and economically feasible option, looking to the future. Under the pipeline alternative, Stone would either be required to construct a processing plant and connect to existing pipeline transportation

systems lying approximately 15 miles east from the Well or to gather and transport gas to the Lisbon gas processing facility approximately 22 miles southeast of the Well along feasible right of ways.

22. However, production to a natural gas pipeline is and will be feasible and economically viable upon the successfully completion of approximately eight additional wells, assuming production characteristics similar to other Cane Creek wells. Stone's current projection for an online gas stream is 2014.

23. Stone cannot produce oil without producing the associated gas. Absent a market for the gas, the Well must be shut-in if gas is not flared. Stone would lose \$7.3 Million (based upon a field price of \$103.00 per barrel) during the balance of 2011.

24. Stone has drilled and will complete its La Sal #29-28 Well in Township 29 South, Range 23, East, S.L.M., in May 2011.

25. Stone is currently drilling its Threemile #16-17 Well in the adjacent Sections 16, 17, and 20, of Township 29 South, Range 22 East, S.L.M., and anticipates completing the well in the fall of 2011.

26. Assuming similar production parameters the La Sal #29-28 and Threemile #16-17 Wells could be attached to any future pipeline.

27. An order authorizing Stone to flare its gas pending further analysis of data from the Well and from other wells Stone drilled in the Hatch Point Field will promote the public interest, increase ultimate recovery, prevent waste, and protect the correlative rights of all owners.

## CONCLUSIONS OF LAW

28. The Board has jurisdiction of the parties and of the subject matter of the Request for Agency Action pursuant to Chapter 6 of Title 40 of the *Utah Code Annotated*.

29. The Division gave due and regular notice of the time, place, and purpose of the hearing to all interested parties as required by law and by the rules and regulations of the Board.

30. Stone served all interested persons entitled to notice of gas flaring operations by mailing copies of the Request to those persons and owners having legally protected interests.

31. The Well is capable of producing gas in excess of the 1,800 MCF/month authorized under R649-3-20.1.1 without approval of the Board upon notice and hearing, and Board approval is required for continued gas flaring.

32. No marketing or conservation—oriented alternatives are feasible and economically viable to gas flaring in the Well.

33. A temporary order authorizing flaring of gas pending production results from the Stone's Threemile #16-17 and La Sal #29-28 Wells and/or additional test results upon completion of other segments of the lateral in the Threemile #12-7 Well will promote the public interest, increase ultimate recovery of oil and gas, prevent waste, and protect the correlative rights of all owners.

## ORDER

**IT IS THEREFORE ORDERED** that in order to promote the public interest; to increase the ultimate recovery of the resource; to prevent physical waste of gas and associated hydrocarbons; and to protect the correlative rights of all owners:

- A. Stone's Request for temporary flaring is granted.
- B. Stone may continue flaring gas from the Well for a period of up to six months from and after April 27, 2011, and shall reappear before the Board within six months to report on additional data gathered through its operations and to seek additional flaring authority, as necessary, or at such earlier time as Stone seeks authorization to flare gas produced from other wells in the Hatch Point Field.
- C. The Division is to monitor the gas flare rates and production tests from the Stone's Threemile #16-17 and La Sal #29-28 Wells and/or additional test results upon completion of other segments in the Threemile #12-7 Well.
- D. The Board retains continuing jurisdiction of this matter and the flaring authorization.
- E. The Board has considered and decided this matter as a formal adjudication, pursuant to the Utah Administrative Procedures Act, Utah Code Ann. §§ 63G-4-204 through -207, and of the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641 (2011).
- F. These Findings of Fact, Conclusions of Law, and Order ("**Order**") are based exclusively upon evidence of record in this proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, as required by the Utah Administrative Procedures Act, Utah Code Ann. §



63G-4-208 (2008), and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641-109 (2011); and constitutes a final agency action as defined in the Utah Administrative Procedures Act and Board rules.

**G. Notice of Right of Judicial Review by the Supreme Court of the State of Utah.** The Board hereby notifies all parties to this proceeding that they have the right to seek judicial review of this Order by filing an appeal with the Supreme Court of the State of Utah within 30 days after the date this Order is entered. Utah Code Ann. § 63G-4-208(f) (2008).

**H. Notice of Right to Petition for Reconsideration.** As an alternative, but not as a prerequisite to judicial review, the Board hereby notifies all parties to this proceeding that they may apply for reconsideration of this Order. Utah Code Ann. § 63G-4-208(1)(e) (2008). The Utah Administrative Procedures Act provides:

(1) (a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63G-4-301 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Utah Code Ann. § 63G-4-302 (2008).

The Rules of Practice and Procedure before the Board of Oil, Gas and Mining entitled “Rehearing and Modification of Existing Orders” state:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of that month.

Utah Admin. Code R641-110-100 (2011).

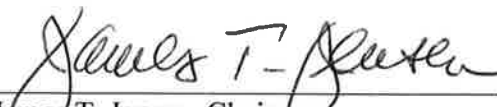
The Board hereby rules that should there be any conflict between the deadlines provided in the Utah Administrative Procedures Act and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the aggrieved party may seek judicial review of the order by perfecting an appeal with the Utah Supreme Court within 30 days thereafter.

I. The Board retains exclusive and continuing jurisdiction of all matters covered by this Order and of all parties affected thereby; and specifically, the Board retains and reserves exclusive and continuing jurisdiction to make further orders as appropriate and authorized by statute and applicable regulations.

J. The Chairman’s signature on a facsimile copy of this Order shall be deemed the equivalent of a signed original for all purposes.

ENTERED this 25<sup>th</sup> day of May, 2011.

STATE OF UTAH  
BOARD OF OIL, GAS AND MINING


  
James T. Jensen, Chairman

**Approved as to Form:**

**Attorney General for the State of Utah**

By: \_\_\_\_\_  
Steven F. Alder  
Attorney for the Division of Oil, Gas and Mining

**LEAR & LEAR L.L.P.**

By:  \_\_\_\_\_  
Phillip Wm. Lear  
Jonathan D. Lear  
Attorneys for Stone Energy Corporation

## CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER for Docket No. 2011-008, Cause No. 166-04 to be mailed with postage prepaid, this 1st day of June, 2011, to the following:

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